FISCAL NOTE

Bill #:	HB0275	**Title:**	Revise assessment and taxation of certain improvements to real property
Primary Sponsor:	Facey, T	**Status:**	As Introduced

Sponsor signature Date   Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY 2004 **Difference**	FY 2005 **Difference**
Expenditures:		
General Fund	$403,455	$310,562
Revenue:		
General Fund	$543,969	$564,320
State Special Revenue (Univ. 6-Mill Account)	$34,356	$35,641
Net Impact on General Fund Balance:	$140,514	$253,758

- ☒ Significant Local Gov. Impact
- ☐ Included in the Executive Budget
- ☐ Dedicated Revenue Form Attached
- ☒ Technical Concerns
- ☒ Significant Long-Term Impacts
- ☐ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. This proposal requires that a special assessment by the DOR take place for improvements constructed during a tax year, that were not assessed or taxable as of the preceding January 1. The improvements must increase in value by more than $20,000, and if remodeled must expand the size of the improvement. The proposal does not pertain to new or expanding industry, residential remodeling where taxable value is increased by at-least 2.5%, and commercial remodeling where taxable value is increased by at-least 5%.
2. The improvements are to be assessed and taxed as of the date of occupation or use. For this analysis, it is assumed that the tax base for the proposal is composed of new residential and commercial real improvements, and new utility real improvement property.
3. Total value of new residential and commercial improvement properties not assessed as of January 1, 2002 have an estimated fiscal year 2003 taxable value of $37,800,000 (DOR). Projected growth of residential and commercial improvement properties is 3.9% per year. The estimated fiscal year 2004 taxable value of new residential and commercial improvements is calculated by applying the projected growth rate of 3.9% to the estimated fiscal year 2003 taxable value, resulting in a projected fiscal year 2004 taxable value of $39,274,200 ($37,800,000 x 103.9%). To calculate the fiscal year 2005 taxable value of new residential and commercial improvements, the same estimated growth rate of 3.9% is applied to the estimated fiscal year 2004 taxable value of new residential and commercial improvements, resulting in a projected fiscal year 2005 taxable value of $40,805,894 ($39,274,200 x 103.9%).

4. The statewide average mill levy for residential and commercial improvements is approximately 519.53. Applying the estimated statewide average mill to the projected FY '04 and FY '05 taxable values of new residential and commercial improvements produces an estimated statewide change in revenues generated from new residential and commercial improvements of $20,404,125 ($39,274,200 x .51953) for FY '04, and $21,199,886 ($40,805,894 x .51953) for FY '05.
5. It is assumed that 70% of new residential and commercial improvements fit the proposal's criteria of being assessed during the year. This percentage takes into account that some new remodeled improvements will not expand the size of the improvement, and therefore are not subject to assessment when they are completed.
6. For purposes of this fiscal note, since owners of completed property are asked to self-report, compliance is estimated at 60%. Idaho has a similar law that taxes new construction. An analyst with the Idaho State Tax Commission responded to the department about self-reporting and assessing issues, when appraising and taxing new construction as it is completed. In Idaho, the local assessors provide the occupancy forms to realty companies, but owner compliance with the law is poor and there is very little enforcement of the law.
7. It is also assumed that the average completion date for new residential and commercial improvements is September 1, which is an average estimated assessment period of four months, or one third of the year on new residential and commercial improvements completed during the year.
8. Applying the aforementioned assumptions, estimated statewide revenues generated from newly completed real residential and commercial improvements not assessed or taxable as of the preceding January 1 is $2,853,721 ($20,404,125 x 70% x 60% x 33.3%) for FY '04, and $2,965,016 ($21,199,886 x 70% x 60% x 33.3%) for FY '05.
9. DOR projects $1,000,000 taxable value per year in new utility real improvements.
10. The statewide average mill levy for utility property is approximately 417.76. Applying the estimated statewide average mill to the projected FY '04 and FY '05 taxable values of new utility improvements produces an estimated statewide change in revenues generated from new utility improvements of $417,760 ($1,000,000 x .41776) for FY '04, and $417,760 ($1,000,000 x .41776) for FY '05.
11. For purposes of this fiscal note, it is assumed that 70% of new utility improvements fit the proposal's criteria of being completed during the year. This percentage takes into account that some new remodeled improvements will not expand the size of the improvement, and therefore are not subject to assessment when they are completed.
12. Compliance for self-reporting of new utility improvements is expected to be 100%.
13. It is also assumed that the average completion date for new utility improvements is September 1, which is an average estimated assessment period of four months, or one third of the year on new utility improvements completed during the year.
14. Applying the aforementioned assumptions, estimated statewide revenues generated from new real utility improvements not assessed or taxable as of the preceding January 1 is $97,380 ($417,760 x 70% x 33.3%) for FY '04, and $97,380 ($417,760 x 70% x 33.3%) for FY '05.
15. Total revenues generated from assessing and taxing new improvements upon completion are estimated to be $2,951,101 ($2,853,721 + $97,380) in FY'04, and $3,062,396 ($2,965,016 + $97,380) in FY'05.
16. The distribution of estimated revenues for FY '04 from a special assessment on improvements completed during a tax year that were not assessed or taxable as of the preceding January 1 is $543,969 to the state general fund, $34,356 to the university system 6 mill, and $2,372,776 to local governments and schools. The distribution of estimated revenues for FY '05 from a special assessment for improvements completed during a tax year that were not assessed or taxable as of the preceding January 1 is $564,320 to the state general fund, $35,641 to the university system 6 mill, and $2,462,435 to local governments and schools.

<u>EXPENDITURES:</u>

17. For purposes of this fiscal note, it is assumed that each year 12,800 residential and commercial parcels will have new construction that meets the criteria set forth in the bill. Each parcel will require an average of two additional visits each year: one to determine whether the parcel meets the criteria, and another to appraise the property.
18. It is estimated that it will take two one-half hour visits for each of the 12,800 parcels to discover and complete an appraisal: this equates to an estimated 12,800 (25,600 visits x 0.5) hours of employee time to accomplish appraisals each year on new non-centrally assessed improvements.
19. It is estimated that there are 1,760 employees effective hours each year per employee.
20. To calculate the estimated number of Full Time Equivalents (FTE) needed to comply with the proposal and appraise completed new improvements, the estimated hours of employee time needed to accomplish appraisals is divided by the estimated employee effective hours in a year, which calculates to be 7.3 FTE (12,800 / 1,760).
21. Estimated expenditures for FTE to appraise residential and commercial property are the product of salary and benefits per employee. FTE expenditures associated with the proposal are estimated to be $231,923 for FY '04, and $230,383 for FY '05.
22. Equipment and operating expenses associated with appraising the residential and commercial new improvements, which includes contract services, rent, and postage for special assessment notices are estimated to be $82,315 in FY '04, and $30,803 in FY '05.
23. The proposal will require the department to conduct stand alone appraisals of centrally assessed property in use after the lien date. This will require an additional centrally assessed appraiser each year (1 FTE), with a personal services cost of $44,204 in FY '04, and $43,867 in FY '05.
24. Equipment and operating expenses associated with stand alone appraisals of centrally assessed new improvements, which includes contract services, travel costs, and postage for special assessment notices are estimated to be $11,273 in FY '04, and $5,509 in FY '05.
25. Changes to the Department of Revenue's computer system requires an estimated 342 contracted programming hours with an estimated average cost per hour of $98.65, which calculates to be $33,740 (342 x 98.66) in estimated set up operating expenses.
26. Estimated total costs as specified in the proposal to send special assessment notices and appraise new improvements not assessable as of the preceding January 1 are projected to be $403,455 ($231,923 + $82,315 + $44,204 + $11,273 + $33,740) for FY '04, and $310,562 ($230,383 + $30,803 + $43,867 + $5,509) for FY '05.
27. HB275 will increase the taxable valuation of school districts to varying degrees, thus lowering the total number of mills levied to support school budgets in FY2005. There will be a small but unknown level of GTB savings as a result.

FISCAL IMPACT:	FY 2004 Difference	FY 2005 Difference
FTE	8.3	8.3
Expenditures:		
Personal Services	$276,127	$274,250
Operating Expenses	$75,128	$36,312
Equipment	$52,200	0
TOTAL	$403,455	$310,562
Funding of Expenditures:		
General Fund (01)	$403,455	$310,562

Revenues:		
General Fund (01)	$543,969	$564,320
State Special Revenue (02)(Univ. 6 Mill Account)	$34,356	$35,641
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01)	$140,514	$253,758
State Special Revenue (02)(Univ. 6 Mill Account)	$34,356	$35,641

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

1. The proposal would result in an increase in taxable value for local governments. It is estimated that the total increase in taxable value would be $6,192,890 in FY04 and $6,407,112 in FY05. The increase in taxable value is estimated to result in additional property tax revenue of $2,372,776 in FY04 and $2,462,435 in FY05.
2. New section 1(3) requires the treasurer to prorate the amount of tax based on the number of calendar days it was taxable. In addition, new section 1(5)(a) requires the county treasurer to notify the person to whom the tax is assessed of the amount due. These new sections will require changes to local government computer systems.
3. Section 5 of the bill, which provides that schools specifically may amend their budgets as a result of any revenue distributed under the provisions of New Section 1.
4. New section 1(3) requires the treasurer to prorate the amount of tax based on the number of calendar days the property was taxable. In addition, new section 1(5)(a) requires the county treasurer to notify the person to whom the tax is assessed of the amount due. These new sections will require changes to local government computer systems.

TECHNICAL NOTES:

1. Current law, or the proposal, does not have language that sets criteria for the department to determine when an improvement is considered occupied or in use. In addition, definitional and administrative problems occur with the term “in use”. Does “in use” mean that the improvement must be 100% functional? For example, if an electrical generator is being built and it is not fully functional, should the improvements be assessed? Some clarification as to what “in use” is would be beneficial. For instance, the legislation could state that the improvement must be fully functional for what it was intended. This clarification is required for both the department and the taxpayer.
2. The fiscal impacts of this fiscal note include new construction of residential improvements located on agricultural and timberland. However, the bill does not specifically include (or exclude) them. Language should be added to clarify whether new construction on agricultural and timberland are subject to the provisions of the bill.
3. New section 1(2)(a) provides for a penalty of 0.667%, but does not specify who would impose the penalty or when it must be paid.
5. New section 1(5)(a) also provides that taxes imposed by New Section 1 are not subject to penalty and interest provisions of 15-16-102(2). This sections exempts taxes due under the proposal from being delinquent or have a penalty assessment for late payment.
6. New section 1(4) states, “ Because the improvement will not have been assessed or taxed during the year because it did not exist on January 1”. This is contradictory for remodeled property and property that was partially complete on January 1, because this property did in fact exist and would have been assessed a tax the previous January 1.

7. New Section 1(5)(b) requires that if the treasurer determines the amount of tax due after October 1st of the tax year, the notification by the treasurer must state that taxes are payable by May 31st of the following year. Taxes collected under the bill from October 1 to January 1 are excluded from 15-16-102, which allows taxes to be paid in 2 equal halves. For instance, in the case of mobile homes, all taxes due would be due when the 1st half payment is due on May 31st, with no 2nd half payment being made on November 31st. Language under 15-16-102 may need to be added to exclude the new taxes collected (under the bill) from October 1 to January 1 from being eligible to pay in two separate payments.
8. Section 4 of the bill amends 15-15-102, to allow the taxpayers affected by the provisions of New Section 1 to file an appeal with the department or with the CTAB either after receiving the special assessment or the result of a review pursuant to an AB-26. This could result in year round reviews of property via the AB-26 process and appeal process. The DOR is not currently staffed for that continuous activity.